



CALIFORNIA Economic Indicators

July-August 2008

Still Hampered by Housing

Home sales continued to improve but home building slowed again.

■ REVIEW OF RECENT ECONOMIC DEVELOPMENTS

California labor markets continued to slide in July. The state lost nonfarm jobs and the unemployment rate inched up. On the housing front, home sales improved as prices dropped further, while construction activity remained depressed.

EMPLOYMENT

Job losses continue at midyear

Nonfarm payroll employment fell by 14,900 in California in July, following a revised loss of 13,400 in June. The loss in June was originally reported as 12,800. The latest loss was the fifth consecutive monthly job loss for 2008. Since the end of 2007, the state has lost 54,000 nonfarm jobs, or 7,700 per month on average.

Nine of the state's 11 major industry sectors lost jobs in July, and the other two made only small gains. Financial activities lost 5,200 jobs; information, 3,600; leisure and hospitality, 2,900; construction, 2,000; manufacturing, 1,200; government, 400; professional and business services, 200; natural resources and mining, 200; and other services, 100. As for the gains, trade, transportation, and utilities added 600 jobs, and educational and health services, 300.

From July 2007 to July 2008, the state lost 75,900 nonfarm jobs, a 0.5-percent drop, with the state's beleaguered housing industry continuing to be the focus of most of the losses. Employment rose 47,000 in educational and health services; 39,300 in government; 9,200 in leisure and hospitality; 6,200 in professional and business services; and 900 in natural resources and mining. Over the year, employment fell by 83,100 in construction; 35,400 in financial activities; 30,900 in manufacturing; 20,500 in trade, transportation, and utilities; 7,800 in information; and 800 in other services.

State's unemployment rate rises again

The state's unemployment rate rose to 7.3 percent in July—a 12-year high. July's unemployment rate was up 0.3 percentage point from a revised June unemployment rate of 7.0 percent and 1.9 percentage points from July 2007's unemployment rate of 5.4 percent. This large year-over-year increase will most likely be revised down next February. The national unemployment rate increased by 0.2 percentage point to 5.7 percent in July, leaving the gap between the state and national rates at 1.6 percentage points.

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Figure 1

Losses Led by Housing-related Sectors

California Nonfarm Employment July 2007 to July 2008

	Jobs
Total Nonfarm	(75,900)
Natural Resources and Mining	900
Construction	(83,100)
Manufacturing	(30,900)
Trade, Transportation and Utilities	(20,500)
Wholesale Trade	2,400
Retail Trade	(22,900)
Transportation, Warehousing, and Utilities	-
Information	(7,800)
Financial Activities	(35,400)
Professional and Business Services	6,200
Educational and Health Services	47,000
Leisure and Hospitality	9,200
Other Services	(800)
Government	39,300

Housing and housing-related industries account for most of the state's job losses.

BUILDING ACTIVITY

Home building slows further

Both single and multi-family home building slipped in July. Residential permits were issued at a seasonally adjusted annual rate of 59,000 units, down over 47 percent from July 2007, and the 29th consecutive year-over-year decline. New home permitting during the first seven months of 2008 was down 43 percent from the same months of 2007 and down 60 percent from the same period of 2006.

Nonresidential construction steady but modest

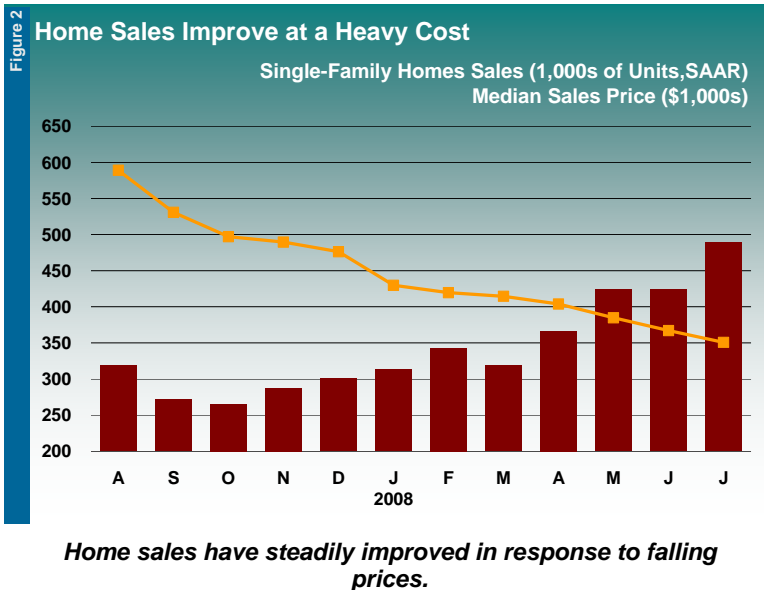
Nonresidential construction permitting essentially held steady in July, with a sharp boost in office construction and a solid gain in alterations and additions offsetting losses in all other categories. For the first seven months of 2008 as a whole, nonresidential permitting was down 3.3 percent from the same months of 2007.

REAL ESTATE

Better home sales come at a steep cost

The state continued to work its way out of the collapse of the real estate bubble. Existing home sales jumped in July, driving inventories down and shortening the time needed to sell a home. The pace of sales of existing single-family homes rose 15 percent from the prior month, and was up 43 percent from a year earlier, according to the California Association of Realtors. Its unsold inventory index¹ inched down to 6.7 months—the lowest reading since the end of 2006. It peaked at 16.8 months in January 2008. Similarly, the median number of days needed to sell a home slid to 47.5 days, a 34 percent improvement from the start of the year.

These promising signs, though, came amid continued deterioration of home values. The median price of existing single-family homes sold in July was \$350,800, a 40-percent drop from July 2007. It remains unclear how long it will take for the pickup in sales to stem falling home prices. Below is a discussion of the near-term outlook for California home prices.



¹ The number of months needed to deplete the supply of homes on the market at the current sales rate.

WHERE ARE HOME PRICES HEADED?

The median price of existing homes sold in California was \$174,000 in the first quarter of 1997 when it began an ascent that would more than triple its value in less than ten years. The median price peaked at \$593,000 in the second quarter of 2007, making the average appreciation rate over that run almost 15 percent per year. Hardly anything kept up with it—not California personal income, not the California CPI, not the S&P 500 index, not even California gasoline prices—which would be extraordinary, except that fraudulent lending practices and inadequate regulation of the securitization of home mortgages contributed significantly to the run-up in housing prices. A national mortgage crisis brought an end to the housing price bubble, and since the second quarter of 2007, home prices have fallen 43 percent in California. This adjustment shows little sign of slowing, raising the question of how far prices will fall.

BOOM AND BUST

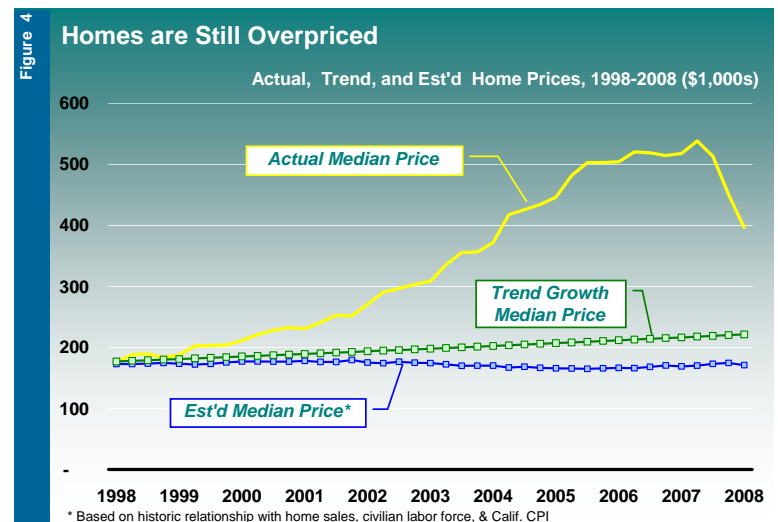
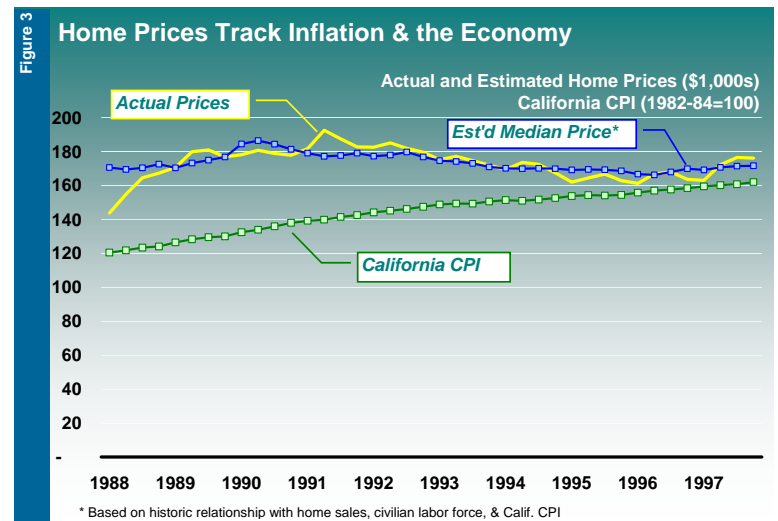
Home prices were predictable at one time

The run-up and subsequent decline in housing prices dwarfed all earlier ups and downs in California existing home prices going back to the beginning of the data in the mid-1970s, and had a profound effect on the state economy. Rising home prices created more home equity, some of which financed new automobiles, home remodelings, and vacations, boosting growth of the economy. Higher home prices and the stronger economy also spurred new home construction. California's economy accelerated in the mid-2000s, but the growth was concentrated in residential construction, real estate, and housing-related finance and retail trade. When the bubble burst, this housing-based economy began to unravel.

From 1988 to 1997, real single-family home prices² generally followed the California CPI, with the exception of a (relatively) small housing bubble in Los Angeles in the early 1990's. During this period, prices could be relatively accurately predicted by a mix of indicators—the California CPI, the civilian labor force, and existing single-family home sales. Housing prices on average grew around half a percent per quarter during this time period. However, after the first quarter of 1997, housing prices skyrocketed. For the next ten years, housing prices would climb 3 percent per quarter on average, and at one point in 2004 they would climb 12 percent in one quarter. This price bubble was the cornerstone of the moderate economic expansion California experienced in the mid 2000's.

Creative financing inflates the bubble

Rising home prices represented a dilemma to the banking industry. How would prospective homeowners afford what would become much higher down-payments and monthly terms on new mortgages for their now much more expensive homes? The answer lay in sub-prime mortgages, a new type of mortgage which lowered emphasis on credit history, and called for low payments for the first few years of the mortgage. These new mortgages allowed people to afford homes that were out of their price range, without adequate evaluation of their credit risks. Sub-prime mortgages fueled the housing bubble, stopping what might have been a normal downward market adjustment of prices. All bubbles must burst however, and when the mortgages started to shift to higher payments after the first few years, there was a huge spike in foreclosures from those who could no longer afford their mortgage payments. This led to the collapse of the housing bubble, which in turn has had a ripple effect through the economy.



² California home prices used in this article are statewide median single-family home prices calculated by the California Association of Realtors and DataQuick. These are the two most widely referenced sources of California home prices. A comparison and contrast of these series were the subject of the previous edition of California Economic Indicators.

WHERE WILL THE MARKET BOTTOM OUT?

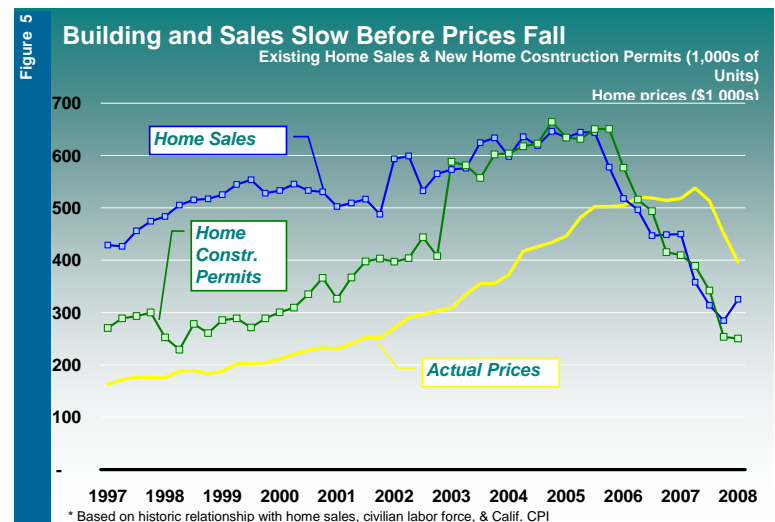
So when and where might home prices stabilize? By using traditional home price indicators mentioned above, one can estimate what housing prices would be currently if the bubble had not occurred. Based on the performance of the California CPI, the civilian labor force, and existing single-family home sales, the estimated median home price in the first quarter of 2008 would have been \$171,000—approximately 57 percent below the actual price. At the height of the bubble in the second half of 2005, the estimated median was 67 percent below the actual median. One caveat to this estimate is that, to some extent, these three variables were themselves affected by the housing bubble.

Another way to estimate a likely equilibrium is to consider the historic record of home price appreciation. From 1988 through 1997, California home prices rose an average of only 0.56 percent per quarter. Projecting forward from 1997 to the first quarter of 2008, based on that average appreciation, California's median price would be approximately \$221,300, or 44 percent below the actual price. At the peak of the bubble, the estimated median was 58 percent below the actual median. Thus by two broad measures, it appears that at the beginning of 2008, home prices were moving quickly towards equilibrium, but could still fall significantly further.

When previous housing bubbles have burst, prices followed a linear decline until they reached market equilibrium. This cycle appears to be following a similar pattern. Depending on which of the above equilibrium benchmarks is used, the gap between actual market prices and an estimated equilibrium closed by a third to one-half since the housing market's price peak in the second quarter of 2007.

Similarly, one can look at variables which are generally good leading predictors of housing prices. Two of these, existing home sales and new housing permits, peaked about a year and a half before home prices. Existing home sales bottomed out in October 2007 and have steadily improved since, accompanied by a steady decline in home inventories. Home building, on the other hand, has not shown any signs of turning around but may have bottomed out. According to these variables, a recovery of housing prices may be in the offing sometime in 2009.

Other predictions regarding the housing market point towards the beginning of a recovery for California. A recent model from Columbia University finds that homes in both San Francisco and San Diego may actually be undervalued, while those in Los Angeles are only slightly over-valued. This model predicts that housing prices will fall some more, but predicts that California is on the right track, and may be heading towards recovery. Another report, by The International Monetary fund, finds that home inventory to sales ratios are the most important determinant in the state of the housing market. A recent decline in this ratio in California provides a positive sign that the housing market is beginning to improve.



Select Indicators

	2007	2008				Year-Over
	Jul	Apr	May	Jun	Jul	% Change
EMPLOYMENT (Seasonally adjusted)						
Civilian employment (000)	17,235	17,246	17,187	17,150	17,056	-1.0%
Unemployment (000)	978	1,141	1,259	1,282	1,352	38.2%
Unemployment rate	5.4	6.2	6.8	7.0	7.3	--
Nonagricultural wage and salary employment (000) a/	15,192.7	15,154.0	15,145.1	15,131.7	15,116.8	-0.5%
Goods-producing industries	2,389.0	2,297.4	2,284.3	2,279.3	2,275.9	-4.7%
Natural resources and mining	25.9	26.7	26.9	27.0	26.8	3.5%
Construction	896.4	824.9	815.7	815.3	813.3	-9.3%
Manufacturing	1,466.7	1,445.8	1,441.7	1,437.0	1,435.8	-2.1%
Service-providing industries	12,803.7	12,856.6	12,860.8	12,852.4	12,840.9	0.3%
Trade, transportation, and utilities	2,919.9	2,906.0	2,904.7	2,898.8	2,899.4	-0.7%
Information	472.7	462.9	467.6	468.5	464.9	-1.7%
Financial activities	906.4	878.7	876.0	876.2	871.0	-3.9%
Professional and business services	2,270.0	2,285.1	2,281.2	2,276.4	2,276.2	0.3%
Educational and health services	1,668.4	1,708.2	1,712.2	1,715.1	1,715.4	2.8%
Leisure and hospitality	1,554.9	1,566.1	1,565.2	1,567.0	1,564.1	0.6%
Other services	517.3	515.0	516.1	516.6	516.5	-0.2%
Government	2,494.1	2,534.6	2,537.8	2,533.8	2,533.4	1.6%
Federal government	246.9	248.3	248.7	248.6	248.6	0.7%
State and local government	2,247.2	2,286.3	2,289.1	2,285.2	2,284.8	1.7%
High-technology industries b/	871.3	873.3	872.7	873.7	874.5	0.4%
Computer and electronic products manufacturing	307.2	306.2	305.6	305.9	305.9	-0.4%
Aerospace products and parts manufacturing	72.0	71.2	71.0	71.0	71.1	-1.3%
Software publishers	43.7	43.4	43.7	43.8	43.9	0.5%
Telecommunications	120.5	121.2	120.9	121.2	120.7	0.2%
Internet service providers	21.4	20.6	20.8	20.6	20.9	-2.3%
Computer systems design	200.1	202.6	203.1	203.3	203.6	1.7%
Scientific research and development	106.4	108.1	107.6	107.9	108.4	1.9%
HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)						
Average weekly hours	40.6	41.1	40.7	40.8	40.8	0.5%
Average weekly earnings	\$657.31	\$681.03	\$673.18	\$677.28	\$677.28	3.0%
Average hourly earnings	\$16.19	\$16.57	\$16.54	\$16.60	\$16.60	2.5%
CONSUMER PRICE INDEX (1982-84=100) (Not seasonally adjusted)						
All Urban Consumers Series						
California Average	n.a.	224.3	n.a.	228.3	n.a.	--
San Francisco CMSA	n.a.	222.1	n.a.	225.2	n.a.	--
Los Angeles CMSA	217.5	224.6	226.7	229.0	229.9	5.7%
Urban Wage Earners and Clerical Workers Series						
California Average	n.a.	217.6	n.a.	221.8	n.a.	--
San Francisco CMSA	n.a.	217.9	n.a.	221.5	n.a.	--
Los Angeles CMSA	209.4	217.9	219.7	222.4	223.2	6.6%
CONSTRUCTION						
Private residential housing units authorized (000) c/	112	76	87	70	59	-47.6%
Single units	66	34	37	41	33	-50.2%
Multiple units	46	42	50	29	26	-43.8%
Residential building authorized valuation (millions) d/	\$27,892	\$20,208	\$19,776	\$20,148	\$17,216	-38.3%
Nonresidential building authorized valuation (millions) d/	\$19,900	\$22,579	\$18,103	\$19,745	\$19,720	-0.9%
Nonresidential building authorized valuation (millions) e/	\$1,683	\$2,011	\$1,601	\$1,917	\$1,753	4.2%
Commercial	535	792	546	800	601	12.4%
Industrial	91	144	38	113	48	-47.4%
Other	309	243	208	336	253	-18.2%
Alterations and additions	749	833	809	667	852	13.9%
AUTO SALES (Seasonally adjusted)						
New auto registrations (number)	140,428	128,696	117,466	120,689	n.a.	--
a/ The wage and salary employment information is based on the new North American Industry Classification System (NAICS).						
b/ Not seasonally adjusted						
c/ Seasonally adjusted at annual rate						
d/ Seasonally adjusted						
e/ Not seasonally adjusted						
n.a. Not available						

Select Indicators (continued)

VACANCY RATES FOR SECOND QUARTER 2008									
(Percent)									
		Office		Office		Office		Industrial	
		Downtown		Suburban		Metropolitan			
		2Q08	2Q07	2Q08	2Q07	2Q08	2Q07	2Q08	2Q07
Northern and Central California:									
Oakland		13.2	9.7	13.8	11.3	13.7	11.0	n.a	n.a.
Sacramento		12.7	11.5	15.9	12.5	15.2	12.3	9.7	11.4
San Francisco		9.1	8.5	10.7	11.9	9.6	9.6	10.8	10.4
San Jose		18.2	14.4	12.0	8.4	13.4	9.8	n.a	n.a.
Southern California:									
Los Angeles Metro		12.0	13.7	9.3	8.5	9.7	9.3	9.8	7.3
Orange County		n.a	n.a.	15.8	9.6	15.8	9.6	9.0	6.2
San Diego		13.6	12.5	16.0	12.1	15.6	12.2	12.0	10.2
Ventura County		n.a	n.a.	15.7	12.2	15.7	12.2	n.a	n.a.
National Average		10.7	10.6	15.1	13.7	13.6	12.6	11.0	9.8
SALES OF EXISTING SINGLE-FAMILY HOMES				FOREIGN TRADE THROUGH CALIFORNIA PORTS		DOD PRIME CONTRACTS a/			
		Median Price	Units (SAAR)	Exports	Imports				
				(\$ millions)			\$ millions	% of U.S.	
2004	Jan	\$404,463	615,659	\$9,062	\$19,996	1993-94	22,573	20.5%	
	Feb	391,550	589,220	9,536	18,011	1994-95	18,277	16.8%	
	Mar	428,060	590,220	11,420	22,589	1995-96	18,230	16.7%	
	Apr	452,680	640,710	10,249	21,722	1996-97	18,477	17.3%	
	May	463,320	632,380	10,460	21,760	1997-98	17,401	15.9%	
	Jun	468,050	633,660	10,481	23,971	1998-99	17,372	15.1%	
	Jul	462,145	639,910	10,388	24,162	1999-00	18,100	14.7%	
	Aug	473,520	591,150	10,118	24,127	2000-01	19,939	14.7%	
	Sep	463,630	626,210	10,446	23,974	2001-02	23,816	15.0%	
	Oct	459,530	639,571	10,460	25,279	2002-03	28,681	15.0%	
	Nov	471,980	652,340	9,792	25,769	2003-04	27,875	13.7%	
	Dec	474,270	645,860	10,628	22,863	2004-05	31,065	13.1%	
2005	Jan	\$484,580	659,410	\$9,405	\$22,776				
	Feb	470,920	608,160	9,756	21,738				
	Mar	496,550	634,700	11,390	23,735				
	Apr	509,630	658,060	10,356	24,337				
	May	522,590	618,920	10,882	24,774				
	Jun	542,330	656,310	11,108	26,153				
	Jul	539,840	647,910	10,828	26,452				
	Aug	567,320	632,240	11,166	26,452				
	Sep	543,510	650,780	10,825	28,012				
	Oct	538,770	621,530	11,371	28,847				
	Nov	548,680	579,560	11,194	27,030				
	Dec	547,400	531,910	11,709	26,024				
2006	Jan	\$549,460	500,470	\$10,848	\$25,555				
	Feb	534,400	513,740	10,791	23,004				
	Mar	562,130	539,170	13,336	27,722				
	Apr	562,380	516,960	11,991	27,005				
	May	563,860	488,260	12,306	28,090				
	Jun	575,850	483,690	12,664	29,621				
	Jul	567,860	453,980	12,255	29,990				
	Aug	577,300	442,150	12,720	31,550				
	Sep	557,150	444,780	12,567	30,608				
	Oct	552,020	443,320	12,913	32,200				
	Nov	554,500	450,930	12,676	29,747				
	Dec	569,350	452,060	12,756	28,396				
2007	Jan	\$551,220	446,820	\$12,325	\$28,025				
	Feb	554,280	480,170	11,717	26,183				
	Mar	582,930	422,300	13,954	27,815				
	Apr	594,110	357,460	12,360	28,049				
	May	594,530	358,640	13,283	28,734				
	Jun	591,280	357,890	13,864	29,961				
	Jul	587,560	341,130	12,837	30,537				
	Aug	588,970	319,200	13,527	31,206				
	Sep	530,830	271,590	13,375	30,962				
	Oct	497,110	265,030	14,511	33,415				
	Nov	489,570	287,600	13,483	31,767				
	Dec	476,380	301,040	14,313	29,615				
2008	Jan	\$429,790	313,580	\$13,016	\$28,280				
	Feb	419,640	343,220	13,664	27,306				
	Mar	414,640	318,830	14,868	27,996				
	Apr	403,870	366,720	14,308	29,907				
	May	384,840	423,700	15,023	30,640				
	Jun	367,130	424,180	15,800	31,269				
	Jul	350,760	489,080	n.a.	n.a.				
a/ U.S. fiscal year: October through September				n.a. Not available					

Leading Indicators ^{a/}

		Manufacturing		Unemployment	New	Housing Unit
		Overtime Hours	Average Weekly Hours	Insurance Claims	Business Incorporations	Authorizations (Thousands)
2004	Jan	4.0	40.0	50,262	8,161	205.8
	Feb	3.9	40.2	50,215	8,596	205.6
	Mar	4.2	40.2	48,845	8,347	210.7
	Apr	4.4	39.9	48,663	8,462	201.8
	May	4.4	40.4	46,437	8,030	204.9
	Jun	4.2	39.9	49,581	8,837	209.3
	Jul	4.4	40.1	48,549	8,636	197.7
	Aug	4.2	40.1	47,823	8,289	215.6
	Sep	4.1	39.3	47,338	8,778	213.2
	Oct	4.2	39.7	47,295	8,130	214.2
	Nov	4.4	39.9	47,341	9,020	236.9
	Dec	4.5	39.9	48,188	9,012	227.3
2005	Jan	4.5	40.2	50,011	5,926	205.5
	Feb	4.5	40.0	46,613	8,977	201.2
	Mar	4.4	40.0	45,084	9,131	209.1
	Apr	4.5	40.0	43,844	9,560	209.8
	May	4.3	40.0	43,211	9,425	212.6
	Jun	4.3	39.6	42,341	9,282	218.3
	Jul	4.3	39.8	41,141	9,189	233.4
	Aug	4.7	39.9	41,131	9,118	198.7
	Sep	4.5	40.0	41,437	9,221	264.3
	Oct	4.4	40.5	39,984	8,740	195.8
	Nov	4.3	39.9	39,978	9,072	190.6
	Dec	4.2	39.4	41,352	9,088	175.8
2006	Jan	4.3	40.2	41,651	9,044	179.3
	Feb	4.5	40.3	38,711	8,699	221.5
	Mar	4.4	40.1	42,336	9,405	171.7
	Apr	4.3	40.2	43,184	8,519	179.8
	May	4.4	40.2	42,531	9,356	164.4
	Jun	4.4	40.4	40,533	8,579	198.7
	Jul	4.3	40.4	42,662	8,417	144.2
	Aug	4.1	40.1	42,949	8,981	150.5
	Sep	4.0	40.2	42,154	8,646	151.3
	Oct	4.2	40.5	42,070	9,070	135.7
	Nov	4.1	40.3	43,305	9,063	128.2
	Dec	4.2	40.8	45,290	8,772	139.1
2007	Jan	4.1	40.5	42,735	9,099	139.6
	Feb	3.9	40.2	42,805	8,890	130.9
	Mar	3.9	40.3	43,454	8,513	141.8
	Apr	3.9	40.5	43,033	8,429	126.7
	May	4.1	40.5	44,729	8,548	120.6
	Jun	4.1	40.6	45,168	8,821	102.6
	Jul	4.0	40.8	45,494	8,705	112.5
	Aug	4.1	40.7	46,201	9,284	127.0
	Sep	4.1	40.7	46,601	8,560	85.0
	Oct	4.1	40.6	49,039	9,091	99.3
	Nov	3.9	40.6	48,732	9,320	69.4
	Dec	3.8	40.4	49,154	8,385	94.5
2008	Jan	3.8	40.4	50,132	7,877	66.0
	Feb	3.9	40.7	47,190	8,805	89.7
	Mar	4.0	40.9	50,184	7,430	52.7
	Apr	4.2	41.2	51,874	8,677	75.9
	May	3.8	40.8	51,928	8,081	87.0
	Jun	3.9	40.7	54,387	7,962	70.4
	Jul	3.8	41.0	60,609	n.a.	59.0
a/ Seasonally adjusted by the California Department of Finance.						
n.a. Not available						

Coincident Indicators ^{a/}

		Nonagricultural	Manufacturing	Unemployment	Unemployment
		Employment	Employment	Rate	Avg. Weeks Claimed
		(Thousands)	(Thousands)	(Percent)	(Thousands)
2004	Jan	14,429	1,537	6.6	450
	Feb	14,445	1,534	6.5	441
	Mar	14,461	1,534	6.5	440
	Apr	14,481	1,537	6.4	436
	May	14,502	1,538	6.4	426
	Jun	14,503	1,534	6.3	436
	Jul	14,568	1,545	6.2	408
	Aug	14,549	1,536	6.1	418
	Sep	14,547	1,530	6.1	421
	Oct	14,616	1,528	6.0	401
	Nov	14,636	1,525	5.9	399
	Dec	14,626	1,520	5.9	402
2005	Jan	14,651	1,524	5.9	400
	Feb	14,685	1,520	5.7	393
	Mar	14,695	1,515	5.5	385
	Apr	14,747	1,517	5.5	371
	May	14,739	1,512	5.5	366
	Jun	14,750	1,510	5.5	374
	Jul	14,808	1,519	5.3	359
	Aug	14,840	1,514	5.3	360
	Sep	14,874	1,512	5.2	337
	Oct	14,895	1,512	5.2	345
	Nov	14,931	1,511	5.1	337
	Dec	14,953	1,509	5.1	325
2006	Jan	14,957	1,511	5.1	337
	Feb	14,999	1,511	4.9	335
	Mar	14,994	1,508	4.9	343
	Apr	14,984	1,503	5.0	358
	May	15,030	1,503	4.9	336
	Jun	15,060	1,501	4.9	335
	Jul	15,085	1,501	4.8	342
	Aug	15,110	1,499	4.9	339
	Sep	15,122	1,500	4.8	339
	Oct	15,162	1,506	4.8	342
	Nov	15,188	1,507	4.7	348
	Dec	15,213	1,507	4.8	348
2007	Jan	15,136	1,476	5.0	357
	Feb	15,159	1,473	5.0	358
	Mar	15,178	1,470	5.0	349
	Apr	15,139	1,466	5.2	359
	May	15,162	1,465	5.3	368
	Jun	15,172	1,464	5.3	353
	Jul	15,193	1,467	5.4	371
	Aug	15,182	1,459	5.5	372
	Sep	15,170	1,457	5.6	395
	Oct	15,168	1,457	5.7	401
	Nov	15,160	1,454	5.7	381
	Dec	15,171	1,452	5.9	427
2008	Jan	15,142	1,450	5.9	418
	Feb	15,165	1,447	5.7	408
	Mar	15,163	1,448	6.2	455
	Apr	15,154	1,446	6.2	476
	May	15,145	1,442	6.8	460
	Jun	15,132	1,437	7.0	465
	Jul	15,117	1,436	7.3	489
		Personal	Wages &		
		Income b/	Salaries b/		
		(\$ millions)	(\$ millions)		
				Taxable Sales c/	
				(\$ millions)	
2004	Qtr I	\$1,235,134	\$682,305	\$122,248	
	Qtr II	1,254,107	694,530	124,131	
	Qtr III	1,272,152	704,879	124,884	
	Qtr IV	1,302,488	714,168	128,541	
2005	Qtr I	\$1,312,089	\$719,120	\$128,097	
	Qtr II	1,335,194	727,829	133,749	
	Qtr III	1,363,071	744,510	137,374	
	Qtr IV	1,382,667	753,281	137,157	
2006	Qtr I	\$1,413,588	\$777,381	\$138,131	
	Qtr II	1,426,103	773,704	140,907	
	Qtr III	1,443,049	784,100	140,409	
	Qtr IV	1,463,044	800,737	140,098	
2007	Qtr I	\$1,492,278	\$814,026	\$142,376	
	Qtr II	1,514,048	823,414	142,108	
	Qtr III	1,530,834	829,619	137,636	
	Qtr IV	1,551,196	841,968	138,460	
2008	Qtr I	\$1,567,165	\$852,116	\$137,151	
	Qtr II	n.a.	n.a.	138,799	
a/ Seasonally adjusted by the California Department of Finance with the exception of the nonagricultural and manufacturing employment and the unemployment rate which are seasonally adjusted by the California Employment Development Department.					
b/ Estimates by the U.S. Bureau of Economic Analysis					
c/ Taxable sales estimates for 2007:QIII through 2008:QII are preliminary.					

ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are manufacturing employment and taxable sales. These series are discussed in the technical note below.

TECHNICAL NOTE

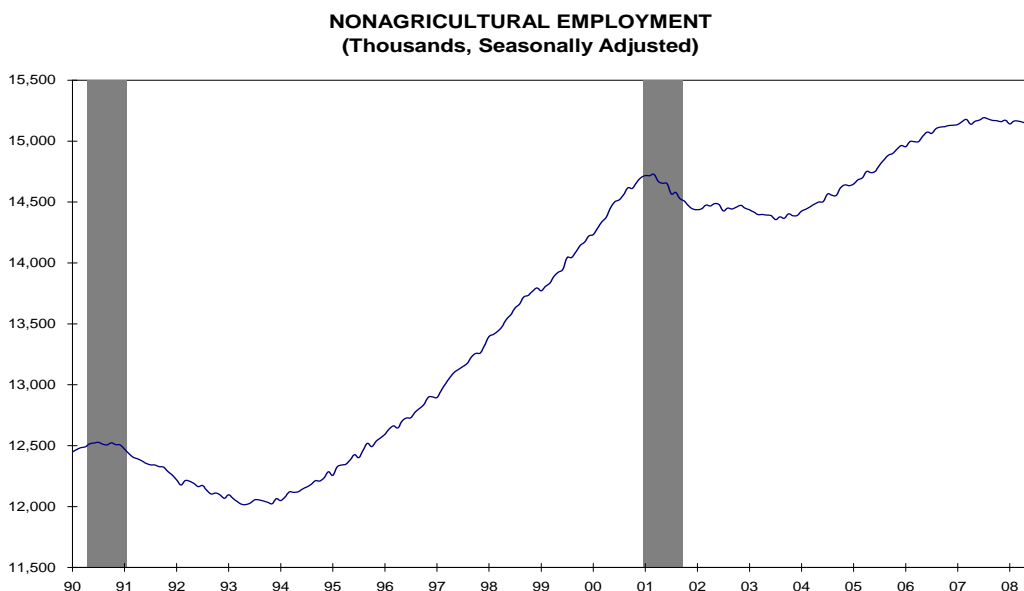
Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-12 Arima program. Persons interested in a detailed description of this method are referred to the U.S. Census Bureau's Statistical Research Division.

Under the X-12 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

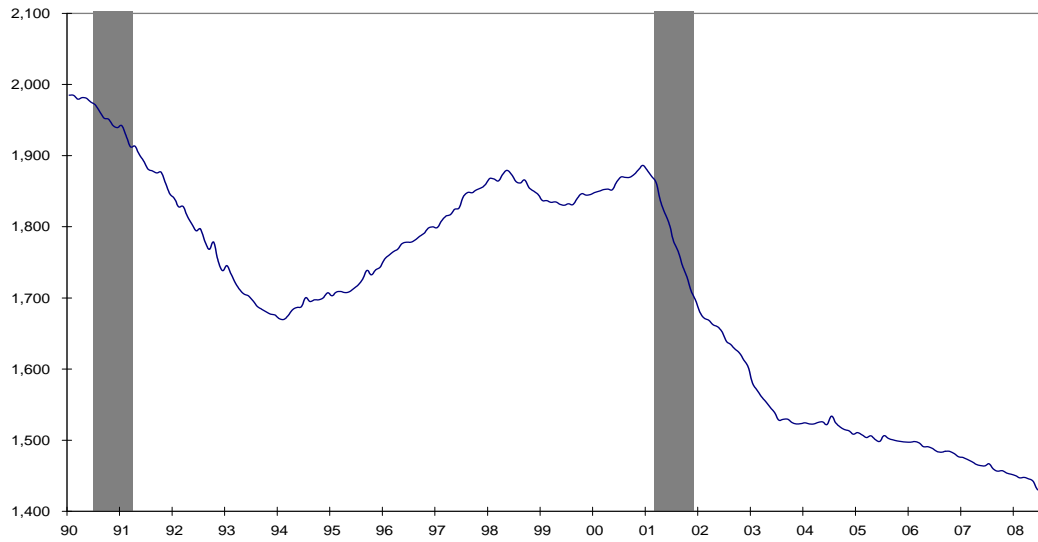
The manufacturing employment series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is, therefore, a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950.

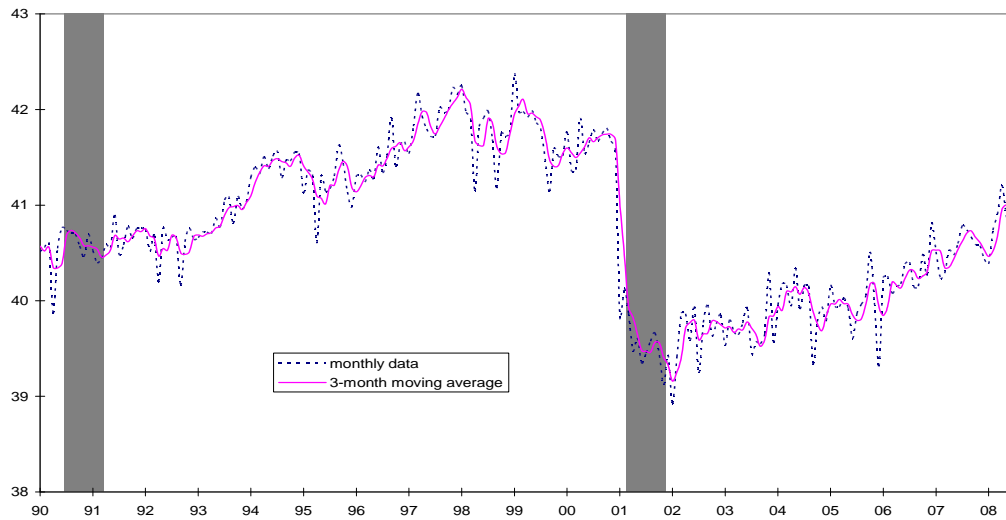
The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.



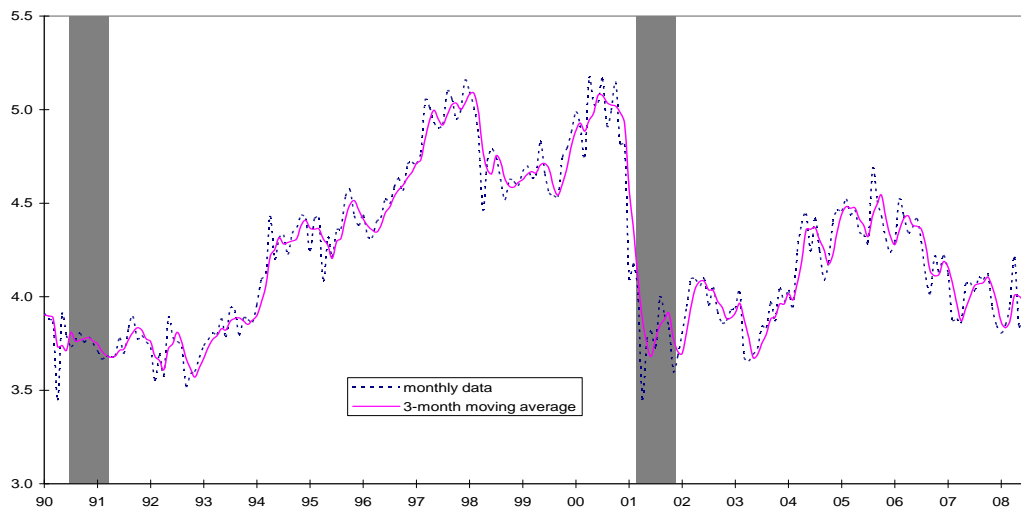
MANUFACTURING EMPLOYMENT
(Thousands, Seasonally Adjusted)



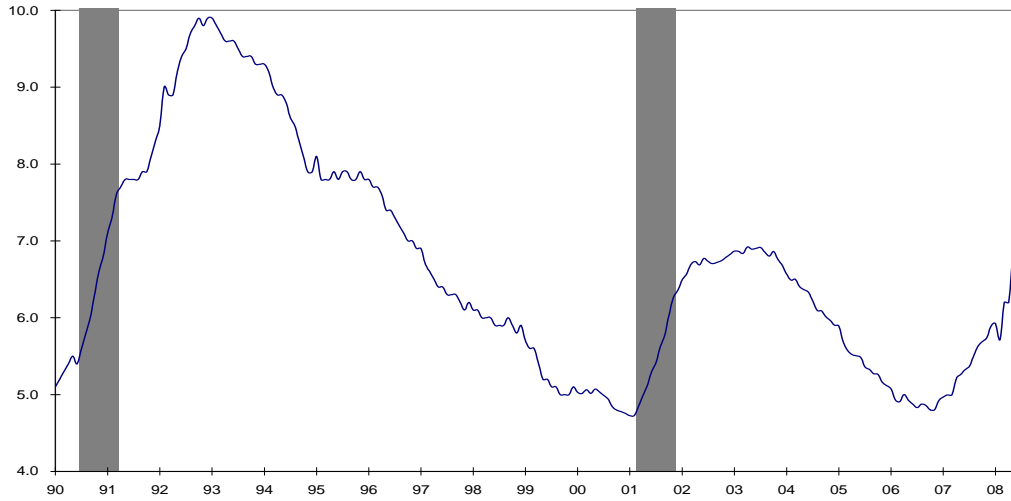
AVERAGE WEEKLY HOURS, MANUFACTURING
(Seasonally Adjusted)



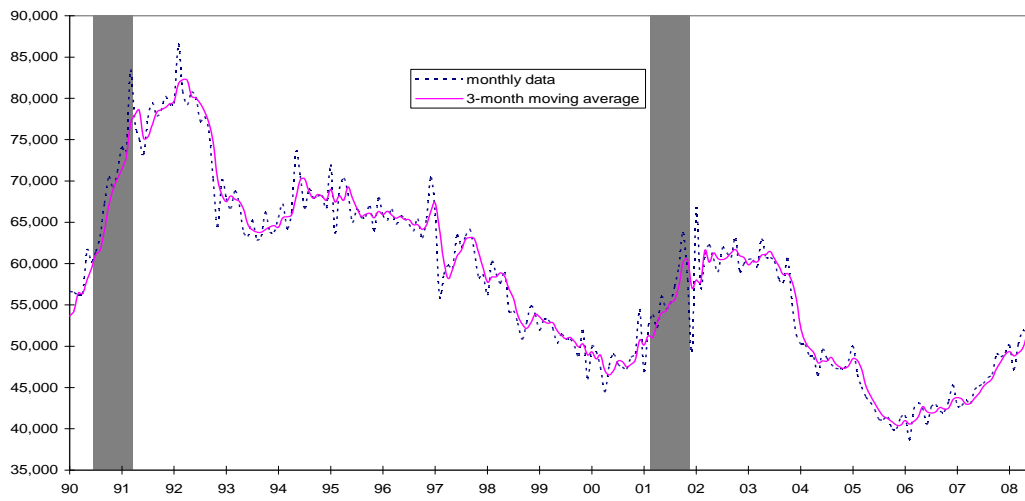
AVERAGE OVERTIME HOURS, MANUFACTURING
(Seasonally Adjusted)



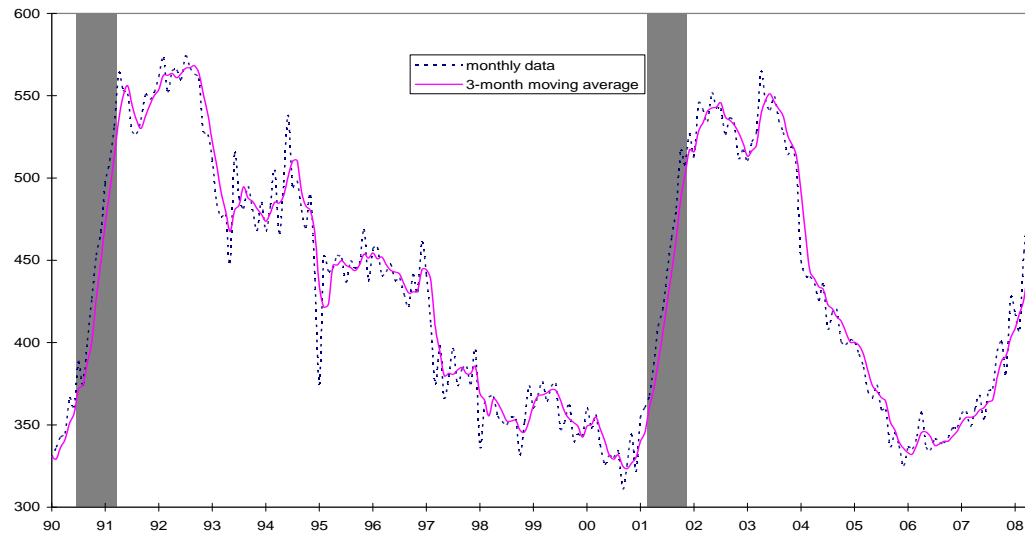
**UNEMPLOYMENT RATE
(Percent)**



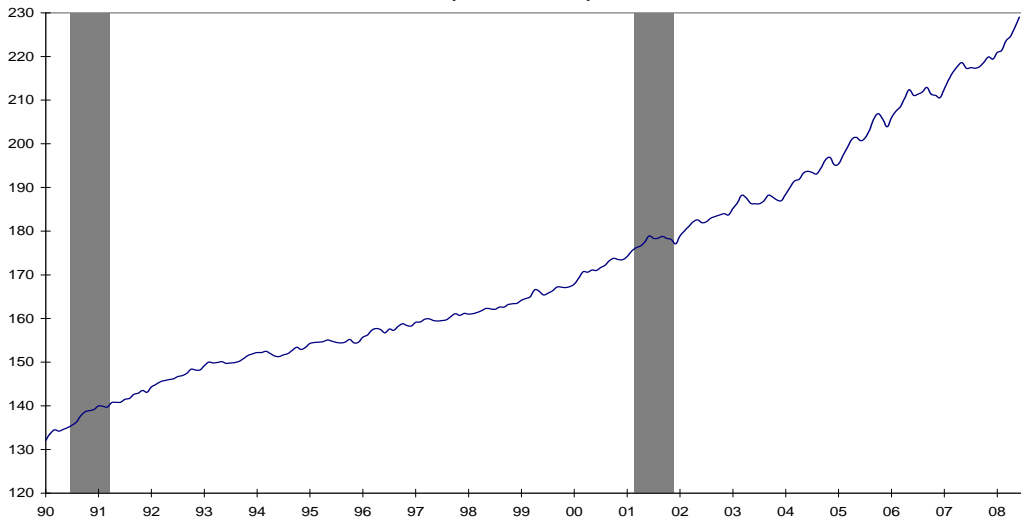
**INITIAL AND TRANSITIONAL CLAIMS FOR UNEMPLOYMENT INSURANCE
(Weekly Average, Seasonally Adjusted)**



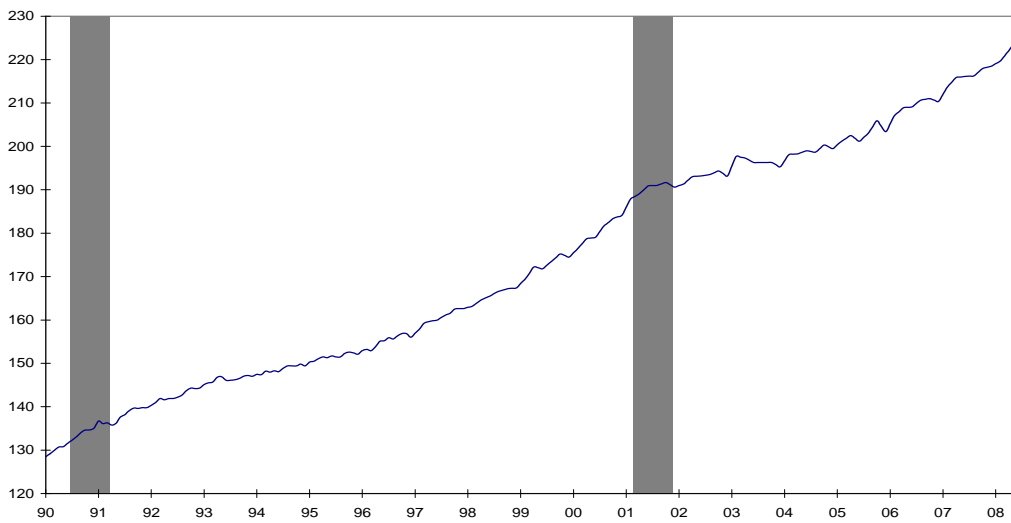
**UNEMPLOYMENT, AVERAGE WEEKS CLAIMED
(Thousands, Seasonally Adjusted)**



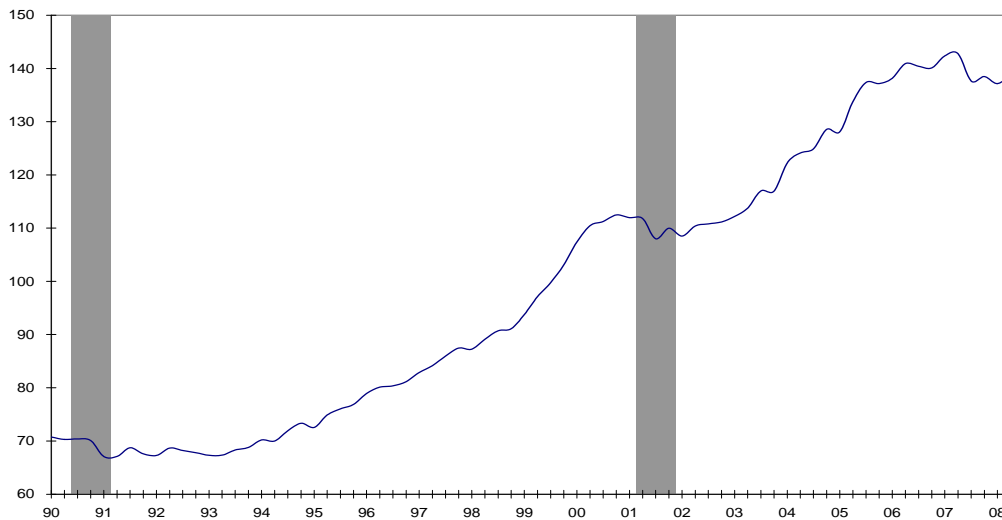
CONSUMER PRICE INDEX, LOS ANGELES
(1982-84=100)



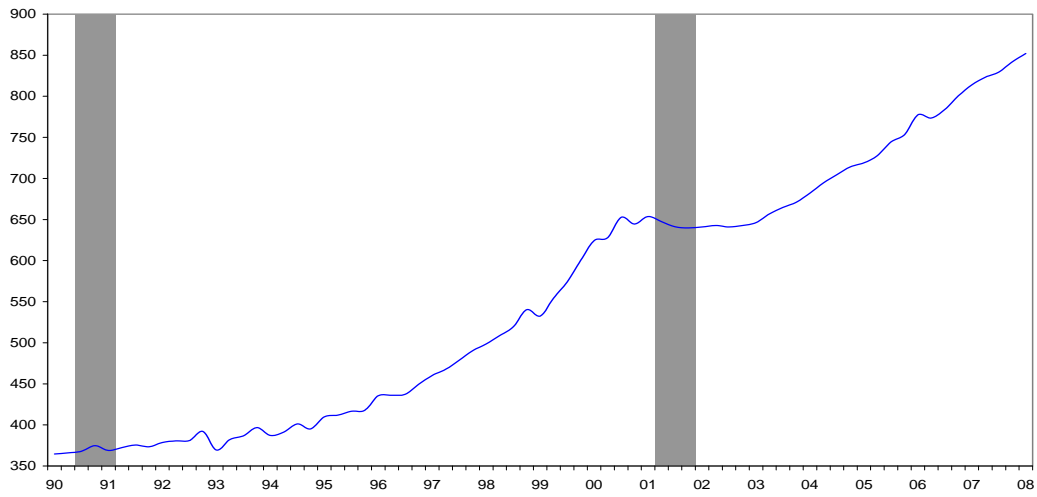
CONSUMER PRICE INDEX, SAN FRANCISCO
(1982-84=100)



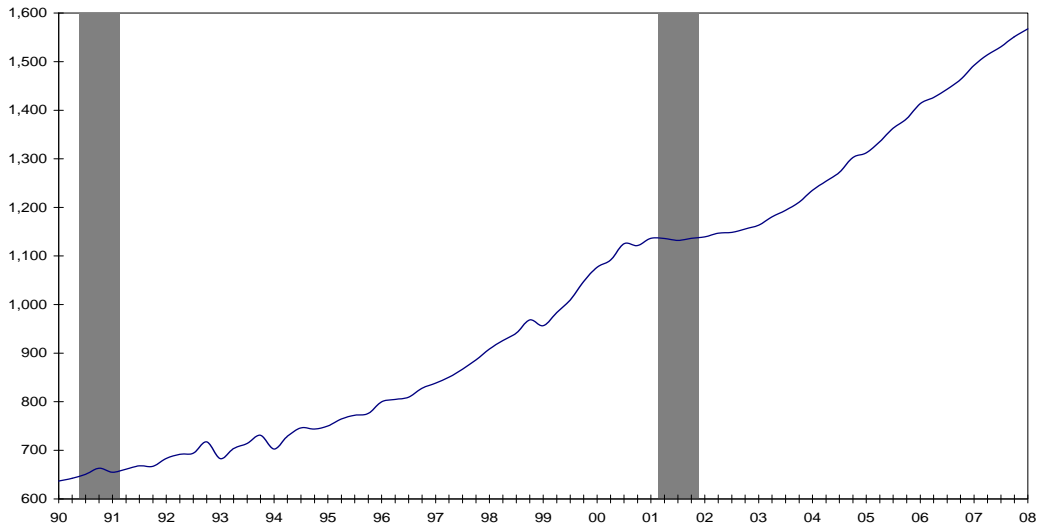
TAXABLE SALES
(\$ Billions, Seasonally Adjusted)



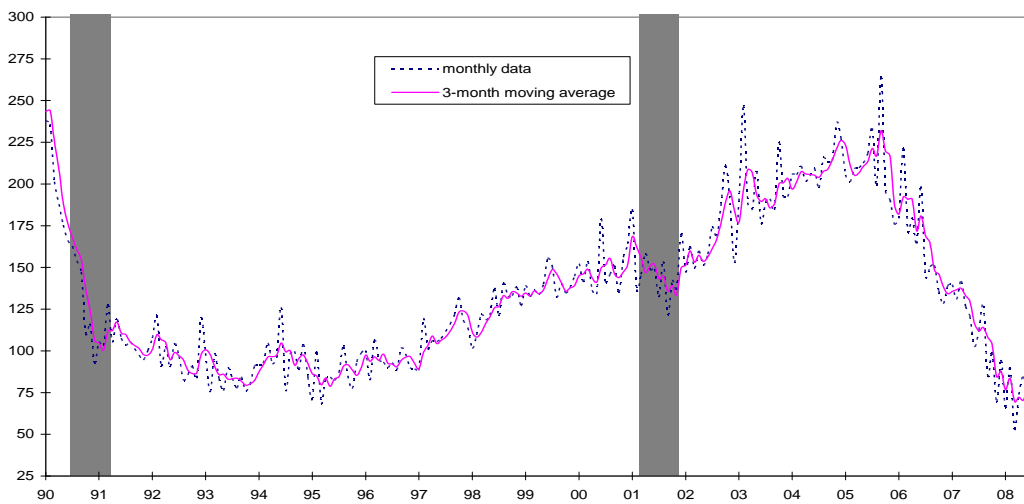
TOTAL WAGES AND SALARIES
(\$ Billions, Seasonally Adjusted)



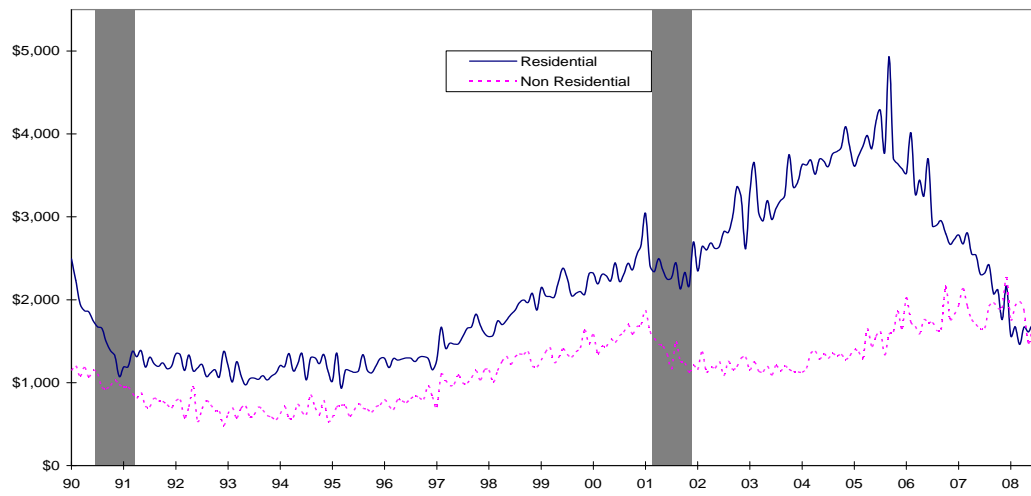
PERSONAL INCOME
(\$ Billions, Seasonally Adjusted)



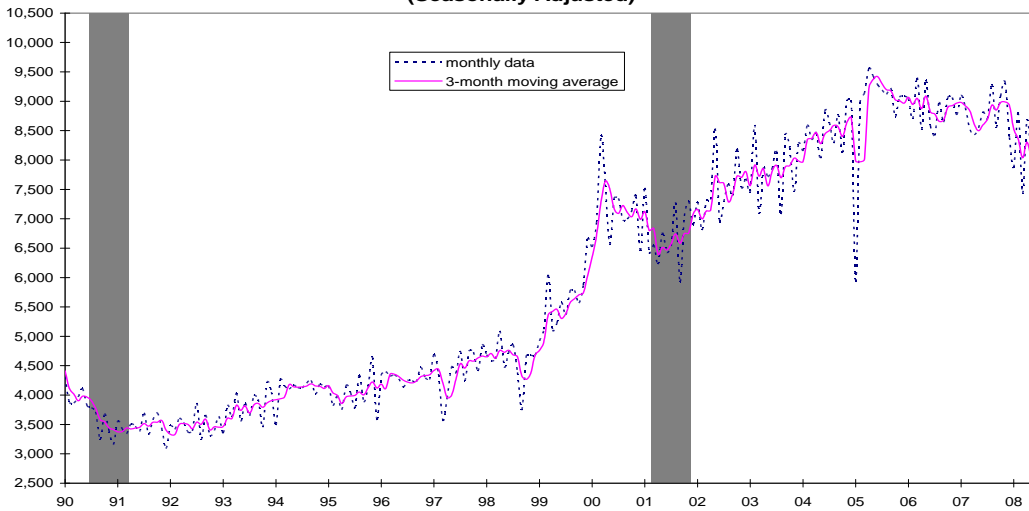
NEW HOUSING UNITS AUTHORIZED BY BUILDING PERMITS
(Thousands, Seasonally Adjusted At Annual Rate)



RESIDENTIAL AND NONRESIDENTIAL BUILDING PERMIT VALUATION
(Dollars In Millions, Seasonally Adjusted At Annual Rate)



NEW BUSINESS INCORPORATIONS
(Seasonally Adjusted)



CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national and international events of general interest have also been included.

---2007---

January 1	California minimum wage increased to \$7.50 per hour from \$6.75.
January 11	Vietnam becomes WTO member.
Mid-January	Freezing temperatures in California caused some \$1.3 billion in crop losses.
January 25-26	Sales of both new and existing homes in the U.S. suffered sharp declines last year. The plunge in new home sales was the biggest drop since 1990 and sales of existing homes saw its biggest decline since 1989.
February	Crippling winter storms blanketed large swaths of the Midwest and Northeast with snow, ice and freezing rain.
February 21	Rising default rates hitting subprime mortgage industry hard.
February 27	Dow Jones industrial average down 416 points, biggest one-day point loss since 2001, after declining markets in China and Europe and a steep drop in durable goods orders triggered a massive sell-off on Wall Street.
February 28	GDP grew at a 2.2 percent pace in the 4 th quarter –a considerably weaker rate than what the government first estimated.
March 2	The latest benchmark revision to the California labor market statistics shows nonfarm payroll employment growth was considerably stronger than what was first estimated.
March 14	President Bush issues a disaster declaration for California counties hurt by the January deep freeze.
March 29	Fourth quarter GDP revised upwards to 2.5 percent.
April 16	The number of default notices sent to California homeowners last quarter increased to its highest level in almost ten years, the result of flat appreciation, slow sales, and post teaser-rate mortgage resets.
April 25	Dow Jones Industrials close above 13,000 for the first time.
April 27	First quarter GDP increased at an annual rate of 1.3 percent.
May 3	S&P 500 closed above 1,500 for the first time in more than six years. Dow Jones Industrials surged to a record high for the sixth time in seven sessions.

May 4	US payroll job growth slowest since 2004. The Dow Jones industrial average hit another record high making this the longest bull run in 80 years.
May 31	First quarter GDP increased at an annual rate of 0.6 percent. That's down from its initial estimate of 1.3 percent growth.
July 24	Federal minimum wage increased to \$5.85 from \$5.15 per hour.
July 26	The Dow Jones industrial average dropped 311.50 points or 2.3 percent amid concerns about housing and credit markets.
August 2	Mattel says it is recalling 1.5 million Chinese-made toys worldwide marking the latest in a string of recalls that have fueled U.S.-China tensions over the safety of Chinese products.
August 9	The Dow Jones industrial average was down 387.18 points or 2.8 percent as worries about the global credit market sparked a broad sell-off in stocks.
August 10	The Federal Reserve injected \$38 billion into the banking system in an effort to provide liquidity as needed to keep financial markets operating normally.
August 17	The Federal Reserve, reacting to concerns about the subprime lending crisis, cut its discount rate half a percentage point to 5.75 percent.
August 23	Bank of America invests \$2 billion in Countrywide Financial Corporation, helping the nation's largest mortgage lender shore up its finances as it struggles with a liquidity crunch.
August 24	California Governor Arnold Schwarzenegger signs the 2007-08 state budget bill.
August 28	The Dow Jones industrial average closed down 280.28 points or 2.1 percent as investors were hit by fresh worries over declining consumer confidence, falling home prices, shrinking profits on Wall Street and uncertainty about the Federal Reserve.
August 30	Second quarter GDP increased at an annual rate of 4 percent. That's up from its initial estimate of 3.4 percent growth.
September 10	Blasts rip Mexico gas and oil pipelines.
September 18	Federal funds rate target reduced from 5.25 percent to 4.75 percent. Discount rate cut from 5.75 percent to 5.25 percent.
September 27	Second quarter GDP increased at an annual rate of 3.8 percent. That's down from its preliminary estimate of 4 percent.
October 21-26	Southern California wildfires.
October 31	Federal funds rate target reduced from 4.75 percent to 4.50 percent. Discount rate cut from 5.25 percent to 5 percent.
November 1	The Federal Reserve injects \$41 billion in temporary reserves into the US money markets.

November 5-	Members of the Writers Guild of America strike
November 12	Citigroup, Bank of America, and JPMorganChase agree to a \$75 billion superfund to restore confidence to credit markets.
November 15	US House of Representatives passes the Mortgage Reform and Anti-Predatory Lending Act of 2007.
December 6	President Bush announces a plan to voluntarily and temporarily freeze the mortgage rates of a limited number of mortgage debtors holding adjustable rate mortgages.
December 11	Federal funds rate target reduced from 4.50 percent to 4.25 percent. Discount rate cut from 5 percent to 4.75 percent.
December 12	The Federal Reserve injects \$40B into the money supply and coordinates such efforts with central banks from Canada, United Kingdom, Switzerland and European Union.
December 18	The Federal Reserve approves measures to give mortgage holders more protection to prevent the current housing crisis from worsening further.
December 20	Third quarter GDP increased at an annual rate of 4.9 percent.
December 21	In California, sales of new and existing houses and condos were down 39 percent from a year ago in November. Sales have declined in the last 26 months on a year-over-year basis. The median price paid for a home was down 2.4 percent from the prior month and down 11.9 percent from a year ago. Financing with adjustable-rate mortgages and with multiple mortgages have dropped sharply. Foreclosure activity is at record levels.
December	Banks, mortgage lenders, real estate investment trusts, and hedge funds continue to suffer significant losses as a result of mortgage payment defaults and mortgage asset devaluation.

---2008---

January 1	California minimum wage increased to \$8.00 per hour from \$7.50.
January 11	Bank of America agrees to purchase Countrywide Financial.
January 14	Fitch assigns Negative Rating Watch to State of California.
January 21-22	Global stock markets plunge.
January 22	Federal funds rate target reduced from 4.25 percent to 3.5 percent, the biggest one-day interest rate reduction on record.
January 30	Federal funds rate target reduced from 3.5 percent to 3 percent.
February 12	Hollywood writers strike ends.
February 19	Crude oil price tops \$100 a barrel.
March 13	Gold futures hit \$1000 an ounce for the first time. Crude oil price tops \$110 a barrel. Gas prices rise to another record high.

March 16	JPMorgan agrees to buy Bear Stearns for a mere fraction of what it was once worth.
March 17	The Fed expanded the range of programs to boost financial market liquidity and cut the discount rate by 25 basis points, to 3.25 percent
March 18	Federal funds rate target reduced from 3 percent to 2.25 percent.
March 27	Fourth quarter GDP increased at an annual rate of 0.6 percent, compared with 4.9 percent in the third quarter.
April 15	Retail chains caught in a wave of bankruptcies.
April 16	Consumer prices, over the past 12 months, is up by 4 percent, reflecting sharp gains in energy costs, which are up 17 percent over that period, and food prices, which are up 4.4 percent.
April 30	Federal funds rate target reduced from 2.25 percent to 2 percent. First quarter GDP increased at an annual rate of 0.6 percent.
July 6	Extended unemployment insurance benefits begin.
July 11	IndyMac Bank seized by federal regulators.
July 30	President Bush signs housing rescue law.
August 8	Georgia-Russia conflict escalates.
August 28	Second quarter GDP increased at an annual rate of 3.3 percent.